NESVICK TRADING GROUP, LLC

Thursday, May 23, 2019
NTG Morning Comments
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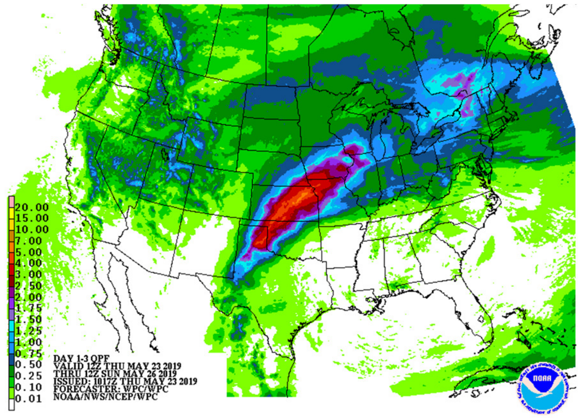
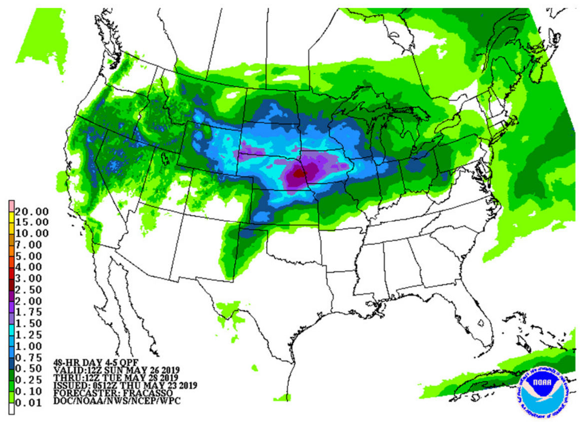
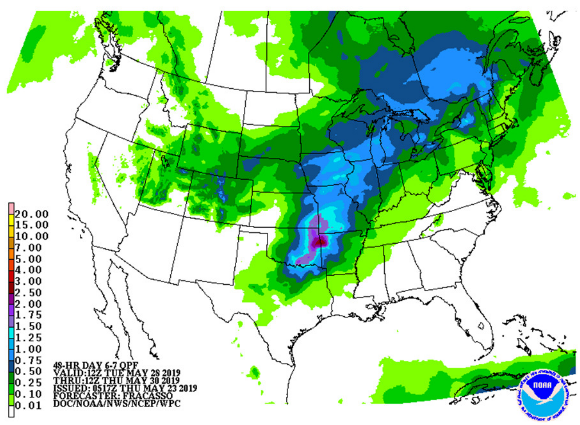
Weather

Maps at right show: Days 1-3, 4-5, and 6-7







There are no changes to the forecast this morning. As you can see in the progression of maps to the right, we're looking at daily chances for rainfall across the Corn Belt and surrounding areas over the next week. The biggest rainfall totals will remain focused on southern MN, IA, northern IL, southeastern SD, eastern NE/KS with 2-4" amounts likely with locally heavier totals probable.

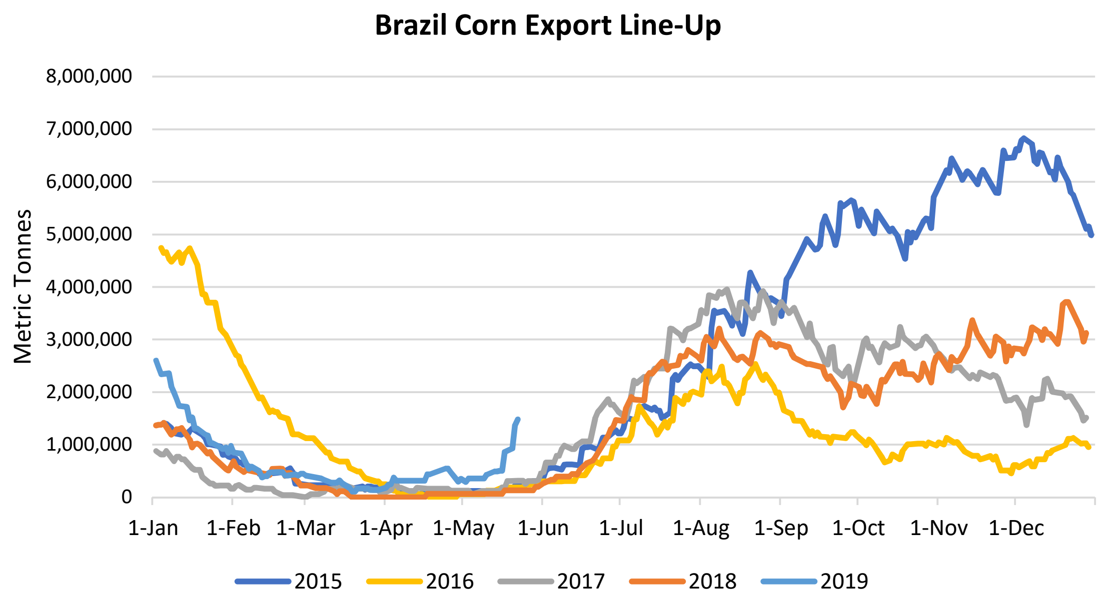
As we have been discussing the past few days, the extremely wet weather pattern will likely breakdown at the end of the month and this will continue for a bit in the first few days of June. This does not mean that it will be completely dry, it only means that rainfall chances will return to more "normal" levels. Our meteorologist continues to expect for a return to the wet pattern at some point beyond the 11-15 day period, but determining when exactly that will happen is a tough call at this point.

No change in the outlook on temps. We should see somewhat cool weather in western areas for another few days but generally speaking most of the Corn Belt and eastern US should see near to above normal temps. Especially above normal temps will be possible in the Southeast with 100s possible starting tomorrow and there will be 100+ highs possible in this area for the remainder of the month.

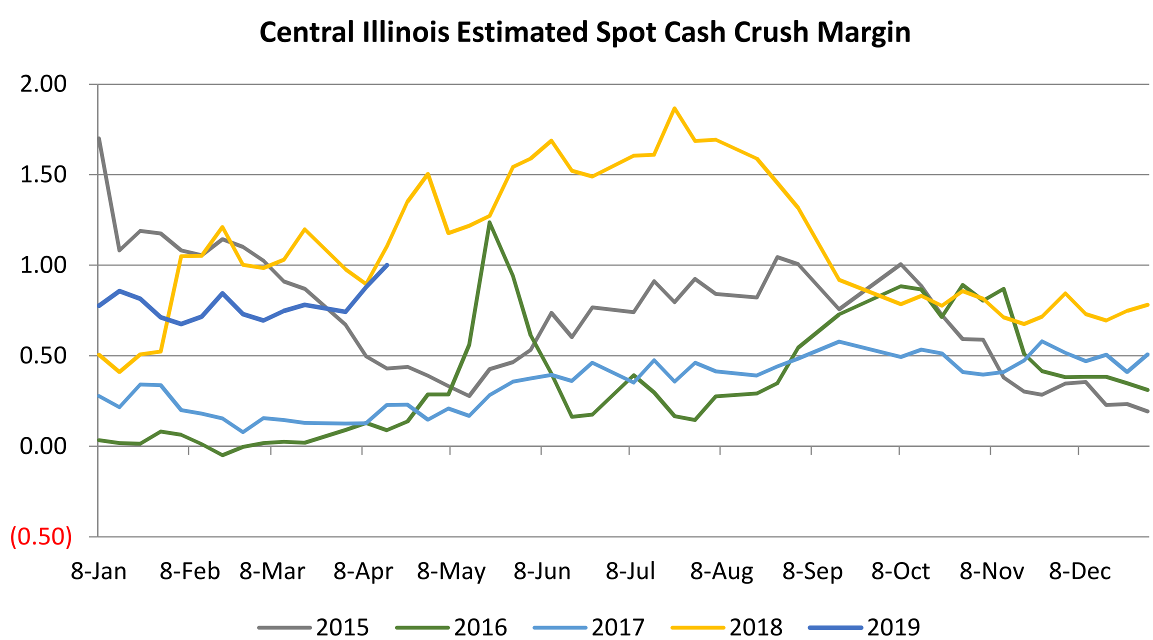
Crops

No theme with today's note…there are just a few random tidbits I wanted to pass along at some point. None of this is necessarily important to near term price action (all weather-driven), so if you're busy this morning just skip today and go about your business…

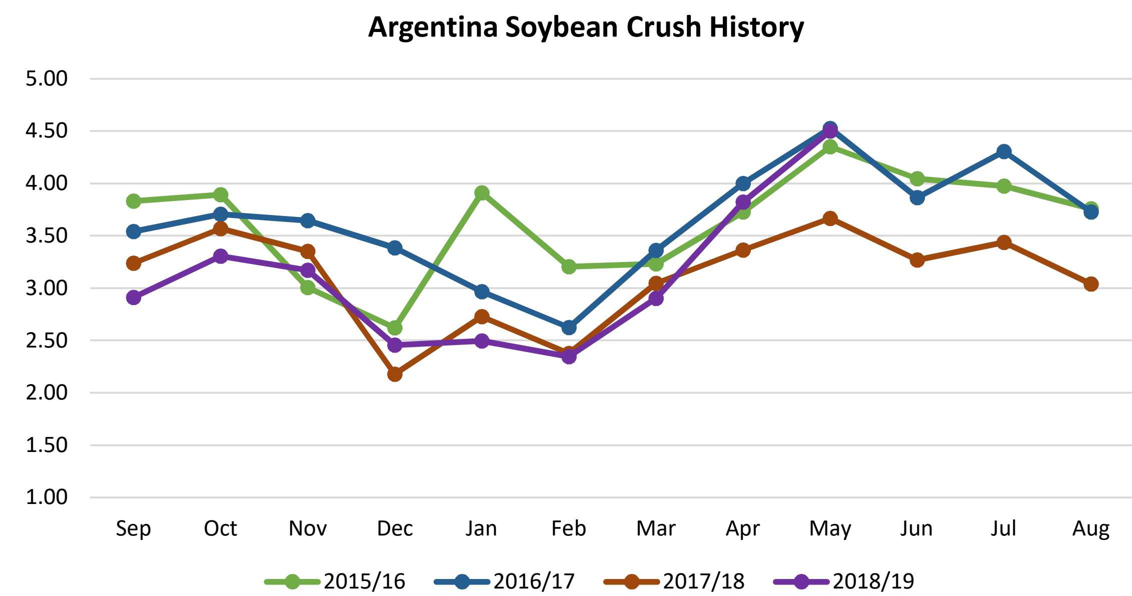
One item that was pointed out to me yesterday was the uptick in the Brazilian export line-up for corn. A chart showing several years of history is shown below. This year's line-up jumps out pretty easily from the rest of the chart. Expectations for a big crop and lower-than-US prices have pointed a lot of demand towards Brazil. If the crop is as big as WASDE's 100 mmt estimate (or bigger?) I wouldn't be shocked to see the line-up grow to the levels seen in late 2015. I'll let you guess how US shipments performed during that period…



If you recall I've recently made some negative comments about the soybean crush pace and the need for WASDE to revise their estimate lower at some point. That might still be the case, but giving a look at recent crush margins does stir up some doubt. A look at central IL estimated margins is shown below. You can see that current levels are not too far from last year's. Considering Argentina's crush pace is only now starting to pick up pace and their crush will be MUCH bigger than what we saw going forward last year, I don't believe margins will reach levels we saw last summer. Still, these are certainly healthy margins and certainly do encourage the processors to run as much as possible. I'm still personally inclined to take the under vs. WASDE's current 18/19 crush guess, but I'll admit confidence is lessened after looking at this chart on margins.

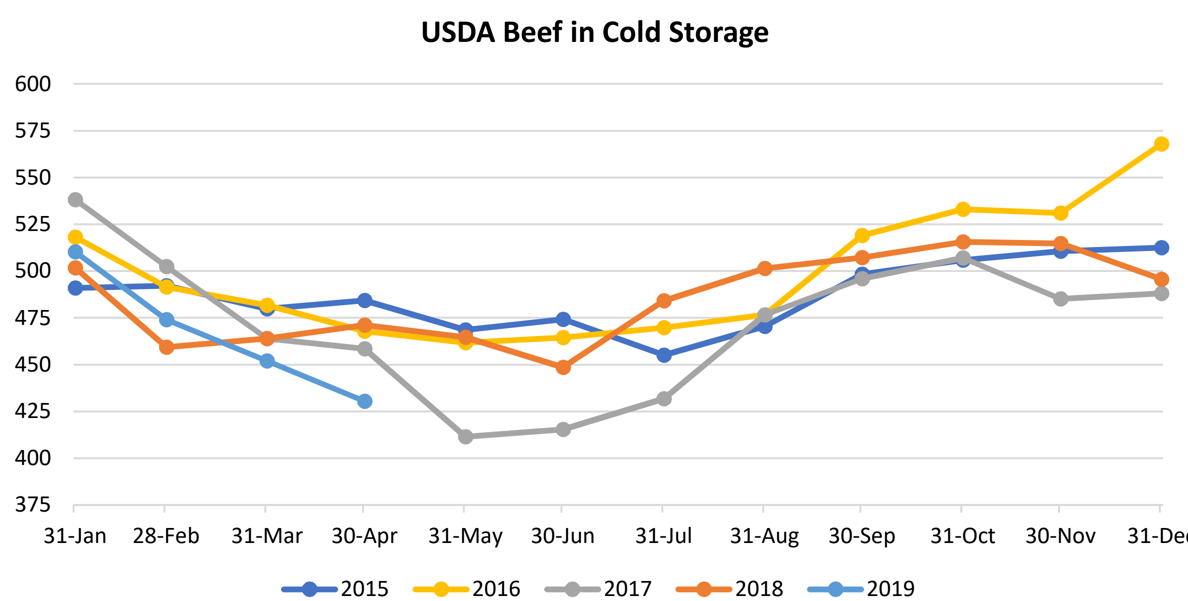


Since we're talking about crush and Argentina, might be worth a quick glance at their crush figures. The historical chart is shown below. You can see that Argentina's crush rate has been exceptionally slow (on a seasonal basis) since last winter. Admittedly, the numbers used here for Apr & May are only estimates as official data is not yet available. Still, Argentina's crush is rebounding sharply here and this could limit US meal export demand and might keep a lid on those crush margins shown above.

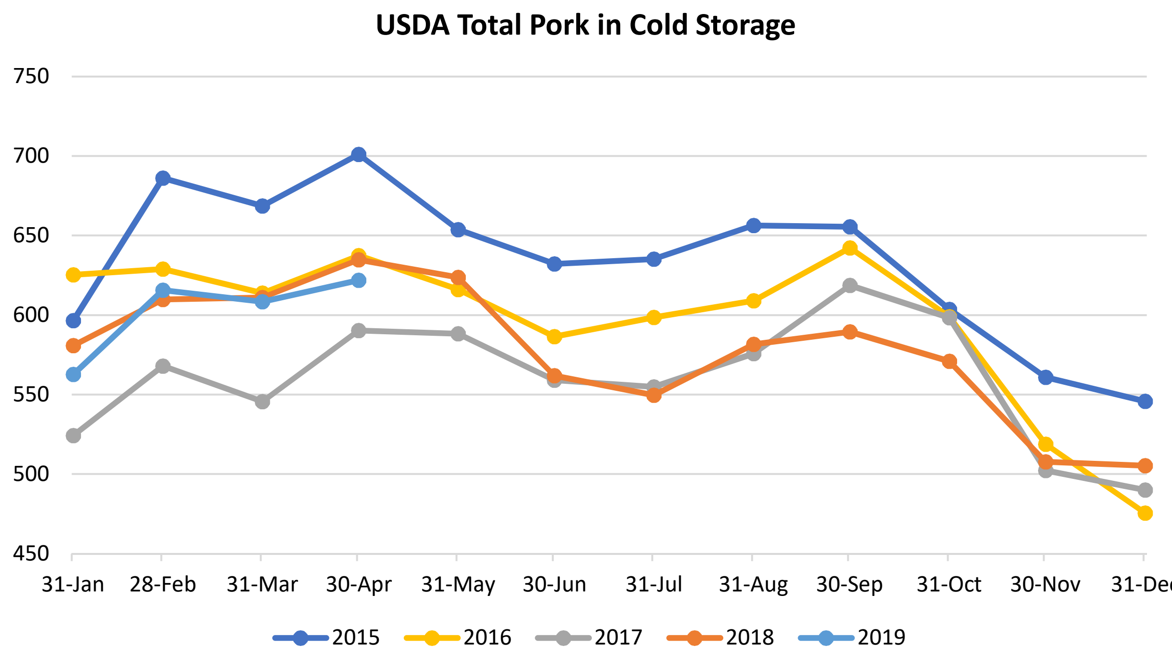


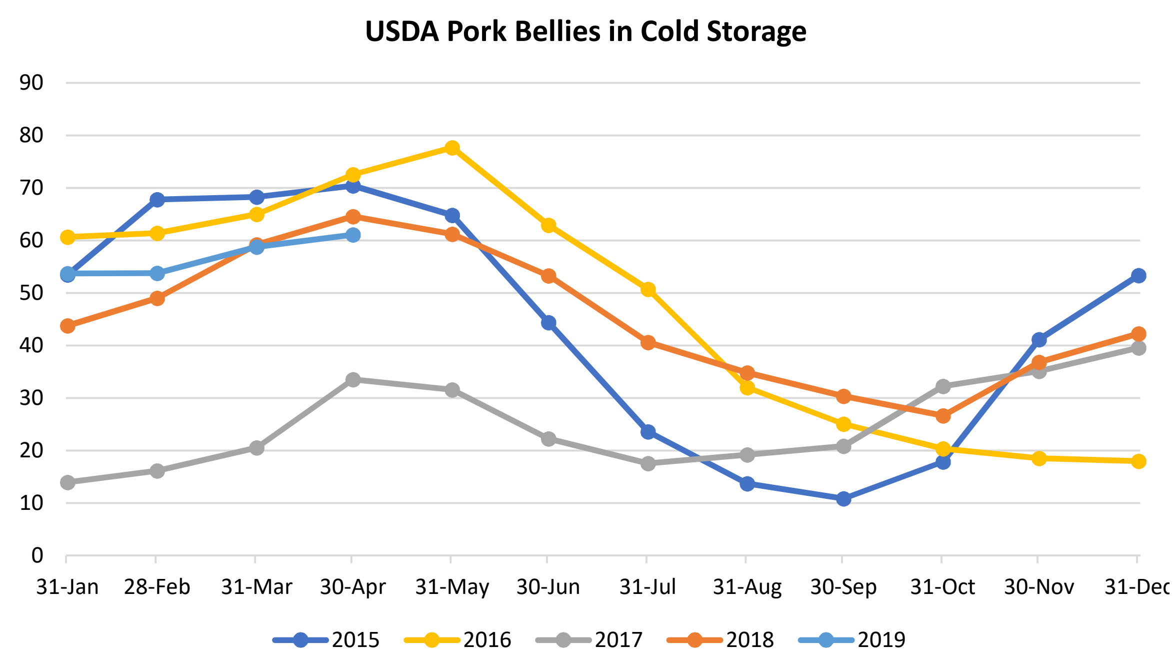
Livestock

The Cold Storage report was released yesterday. It is rarely a market-mover, and I don't expect it to influence price action today either. That said, let's take a quick look. Up first, total beef stocks are off roughly 5% YOY and you can see below they're at the lowest level for April in the past several years.



Total pork supplies were off slightly from last year, but nothing significant. Pork inventories for now appear to simply be following their normal seasonal patterns. The exact same can be said for bellies.

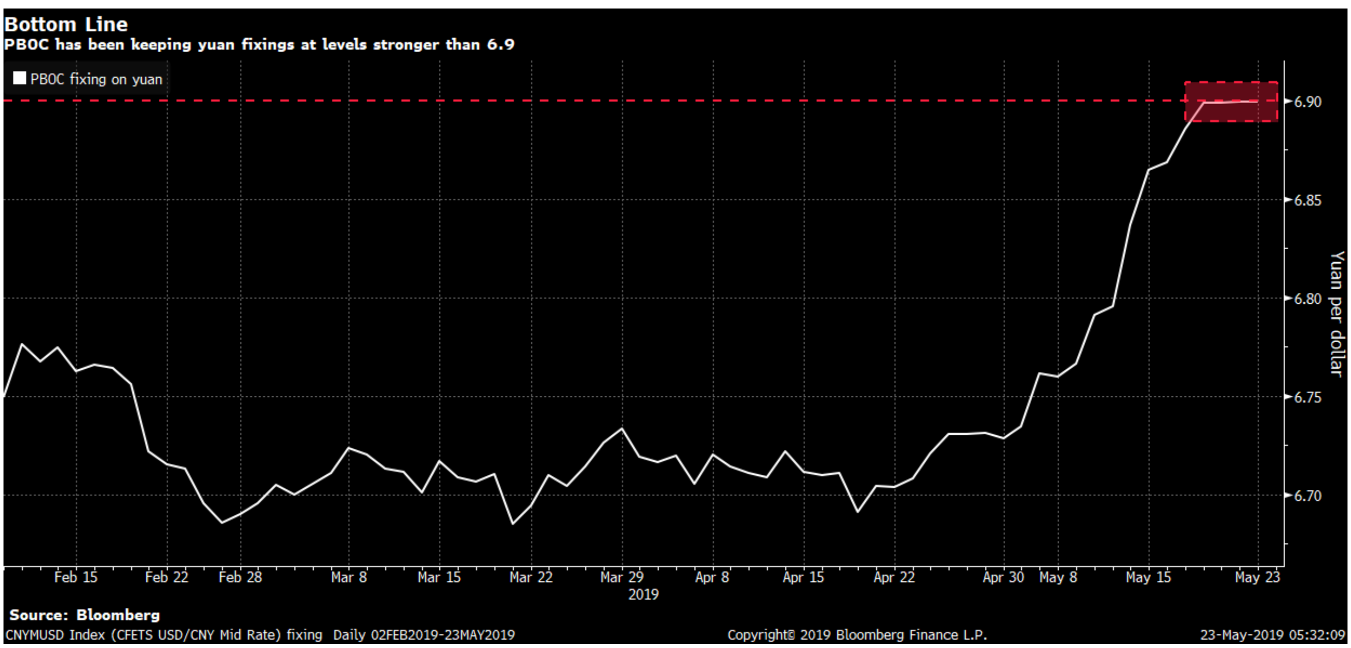




Thought it is unlikely that the Cold Storage numbers will have a dramatic influence on the board today, yesterday's weakness in the pork cutout might weigh on hog futures today. The overall cutout was down over $2 and bellies lost almost $5. Seasonally speaking, we should be embarking on a strong timeframe for bellies so this weakness has my attention. Perhaps its just some one-day volatility, but I'll be keeping an eye on it.

Financials

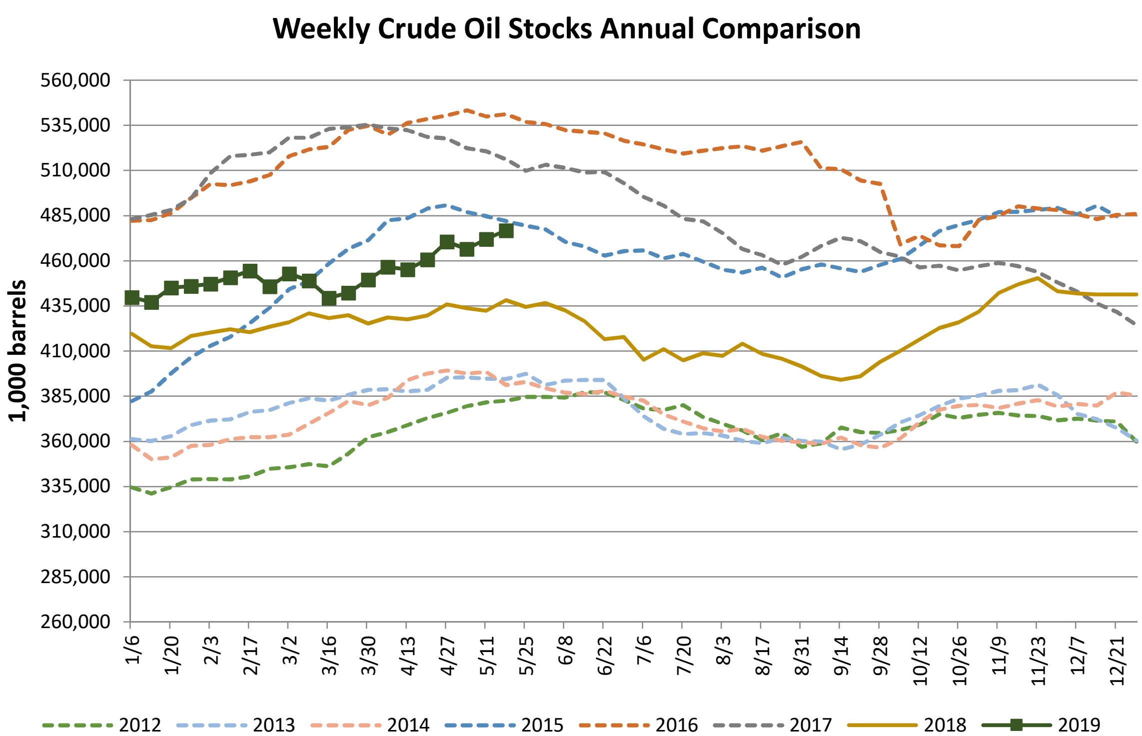
Nothing particularly new this morning. US equity futures are lower in part due to ongoing negative commentary on the trade war. Overnight a state-run media group, The People's Daily, said the trade war may last until 2035 (I'd be interested to know how they came up with that date) and they said it would be a cycle of "fighting and talking". They went on to add that making America great again will only make it a laughing stock. More interesting to me than the commentary from the state-run media is the action in the CNY. You can see in the chart below the CNY has been remarkably stable over the past several sessions after weakening dramatically since trade talks broke down. This would seem to be the line in the sand for the PBOC…they clearly do not want the CNY weakening any further for now. Remember, the Chinese government would very much like to "internationalize" the CNY and in order to do so they must control the volatility and maintain its function as a store of value.



The trade drama of course isn't the only thing weighing on sentiment. We have PMI reports out overnight, and of course most eyes are on Europe when these are released nowadays. German manufacturing continues to be weak, positing a weaker than expected 44.3 vs. last month's 44.4. The composite PMI for Germany was better, however, at 52.4 vs 52.2 the prior month. French figures were solid, and the EU overall composite PMI reading inched slightly higher to 51.6 from 51.5 last month (though this was slightly below expectations). Despite the relatively "decent" PMI numbers outside of Germany, the Euro is weaker at the time of writing this morning. I continue to keep a close eye on that DX chart…it is on the verge of that breakout I mentioned earlier in the week.

Energy

Some will blame the trade tensions as a key reason for the oil weakness but the ongoing building in US crude oil supplies would seem to be more important to me. Yesterday the EIA reported a much larger than expected build of 4.7 million barrels in crude oil stocks. You can see in the chart below that stocks have been climbing higher for several weeks now and are now at their highest level since July 2017. As you would probably expect, the Brent-WTI spread has been widening over this period. Seasonally we might think that US stocks should level off during the summer months, but with relatively "high" prices for oil we certainly have an incentive for ongoing active drilling as prices are well above the shale break-even levels.



Today's Calendar (all times Central)

- Export Sales – 7:30am
- Jobless Claims – 7:30am
- New Home Sales – 9:00am
- Natural Gas Storage – 9:30am

Thanks for reading.

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